STATE OF MONTANA

NORTHERN MONTANA COLLEGE

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1974

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

STATE OF MONTANA

NORTHERN MONTANA COLLEGE

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1974

62

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

TABLE OF CONTENTS (Continued)

* The Commissioner of Higher Education did not reply directly to this report, but advised us that his comments with respect to the audit report on the University of Montana (June, 1975) also pertain to the issues raised in this report. The Commissioner's comments are included in the published audit report on the University of Montana.

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Thomas L. Judge, Governor*

Dolores Colburg, Superintendent of Public Instruction*

Lawrence K. Pettit, Ph.D., Commissioner of Higher Education, Secretary

Sid Thomas, Student Representative	Bozeman	1976
Lewy Evans, Jr.	Billings	1976
T. T. Heberly	Havre	1977
Mary Pace, Vice Chairman	Bozeman	1978
Ted James, Chairman	Great Falls	1979
Jeffrey Morrison	Helena	1980
John Peterson	Butte	1982

* Ex officio members

NORTHERN MONTANA COLLEGE

LOCAL EXECUTIVE BOARD

Sylvia Kafka	April, 1975
Peter Hamilton	April, 1976
Elizabeth Jergeson	April, 1977

ADMINISTRATION

J. R. Crowley, Ed.E.	President
Lorraine B. Hockett, C.P.A.	Treasurer

SUMMARY OF RECOMMENDATIONS

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

JOSEPH J. CALNAN
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of Northern Montana College as of June 30, 1974, and the related statements of operations listed in the table of contents of this report for the year then ended. Our examination was made in accordance with generally accepted auditing standards and with the audit requirements set forth in the applicable audit guides issued by the Department of Health, Education and Welfare for Audits of National Direct Student Loan Programs, Economic Opportunity Grants, and College Work Study Programs, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The college has included account balances and account activity in agency funds which should be included in the restricted and unrestricted current fund in order to conform with generally accepted accounting principles. If these balances and activity were recorded in current funds, agency funds assets would be decreased by $172,818, agency funds income would be decreased by $194,997, and agency funds expenditures would be decreased by $188,896. Current funds would be affected as noted on page 14 of this report.

The college has not prepared statements of changes in fund balances as part of their financial statements or prepared footnotes to provide adequate financial statement disclosure as discussed on page 15 of this report. Additionally, the college has not provided for bad debt expense as discussed on page 30, and unearned receivables were inappropriately reported as discussed on page 30.

In our opinion, except for the items noted in the preceding paragraphs, the aforementioned financial statements present fairly the financial position of Northern Montana College at June 30, 1974, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

February 21, 1975

COMMENTS

GENERAL

Northern Montana College was established at Havre by the Thirteenth Legislative Assembly in 1913. It was initially called Northern Montana Agricultural and Manual Training School. No money was appropriated for the operation of the college until 1929 and the college officially opened that September with an enrollment of eighty students. In 1932 the college moved from the Junior High School to its present campus location on the southern edge of Havre.

Northern Montana College is a co-educational institution and one of the six units of the Montana University System. Northern offers course-work leading to teaching certificates in elementary education, secondary education, and vocational-technical education. Master of Science degrees are awarded in elementary and vocational-technical education; Bachelor of Science degrees are awarded in elementary, secondary and vocational-technical education; the Bachelor of Arts degrees are awarded in English and history; and associate degrees are awarded in engineering technology, nursing, arts, and science.

The college is under the general control and supervision of the eight-member Board of Regents of Higher Education. A three-member local executive advisory board is appointed by the governor.

The college is financed primarily by appropriations from the General Fund, the University Millage account and the student fee earmarked revenue account. Revenue is also generated from Federal grants, private gifts and grants, and auxiliary enterprise operations. Specifically, appropriated funds for fiscal year 1973-74 were $2,036,906, and funds received from other sources were $813,248.

CONSTITUTIONAL STATUS

Throughout our examinations of the various units of the university system the question of university autonomy has arisen. Basically, the question of autonomy pertains to the extent to which the units of the university system are subject to the actions of the legislature. This topic has previously been discussed in legislative audit reports pertaining to other university units (Western Montana College, November, 1974; Montana College of Mineral Science and Technology, November, 1974; and University of Montana, June, 1975). Comments made in those reports are also applicable to Northern Montana College.

COLLEGE ACCOUNTING AND THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM

The Department of Administration has developed the Statewide Budgeting and Accounting System (SBAS) which is presently the required accounting system for all state agencies except the university system. Due to the variety of funding sources available to universities and outside limitations imposed on the use of some funds, present accounting needs of universities vary somewhat from the needs of other governmental organizations. The American Council on Education (ACE) has recommended a fund accounting system for colleges and universities, College and University Business Administration, 1974, referred to as "CUBA." This system incorporates recommendations of the American Institute of Certified Public Accountants (AICPA) and the joint accounting group (JAG). Many colleges and universities have implemented the system recommended by the ACE and near universal use of its system is anticipated.

Although the accounting system used by the college was intended to conform with the fund accounting system recommended by ACE, it is primarily a hand kept system with the inherent disadvantages of hand posting transactions and manual accumulation of data for the preparation of

periodic reports. Business office policy is to prepare monthly financial statements which are distributed to the various management personnel. In addition, a department budget status report is prepared periodically for use in planning department programs.

Because preparing these monthly reports manually is time-consuming, regular monthly and year-end duties have not permitted these periodic reports to be consistently prepared in a timely manner. For example, month-end reports for July, August, September and October, 1974, had not been prepared as of November 1, 1974.

The reports are most useful when they are available immediately after the end of the period to which they apply. The need for these reports is indicated by the fact that they had been requested by the manager of the student union food service, snack bar and bookstore, and that during this period certain departments used business office records to prepare their own budget information. These reports are essential for the various college management groups to perform their functions well.

The monthly financial statements would be prepared automatically if the college's records were kept on an automated system such as SBAS. Additionally, inconsistencies between the college's accounting and reporting and generally accepted standards (see page 15) could be eliminated in a uniform accounting and reporting system designed for the university system.

The need for SBAS or other methods of providing a uniform system of accounting for university units is also discussed in other recent legislative audit reports on the university system. The discussion in these reports is applicable to Northern Montana College and the recommendation is repeated here.

RECOMMENDATION

We recommend that representatives of the university system work with the Department of Administration to develop an accounting system to satisfy legislative and university requirements.

DEPOSIT AND INVESTMENT OF COLLEGE MONEYS

The college maintained investments with both local banks and the state's Board of Investments during fiscal year 1973-74. The investments held locally at June 30, 1974, were in the form of time deposits amounting to $83,700.

The money was pooled from the student loan funds, fees and collections not deposited in the state treasury, auxiliary enterprise revenues, and agency funds. The college has not effectively invested these moneys. Checking account balances, which ranged from $205,000 to $675,000 during the fiscal year 1973-74, provide evidence of this fact. These high cash balances were not necessary for the day-to-day operation of the college. As a result, interest income was lost on the excess demand account balances. Local college investments earned an average of 5.5% interest. On the other hand, deposits in the State Board of Investments short-term investment pool (STIP) yielded an average of 8.83%. That being the case, from a good business standpoint the college should use the Board of Investments program to invest their local funds.

Article VIII, Section 13, of the Montana Constitution, stipulates that the legislature shall provide for a unified investment program for public funds. Article X, Section 10, provides that the various funds of the Montana university system shall be invested under such regulations as may be provided by law. Section 82A-204, R.C.M. 1947, provides that the Board of Investments has the sole authority to invest state funds and that no other agency may invest state funds. The Attorney General

held in 36 Opinions of the Attorney General, No. 2, dated January 31, 1975, that the provisions of state law requiring investment of college moneys by the Board of Investments (Sections 79-308 and 82A-204, R.C.M. 1947) are applicable to the Board of Regents of Higher Education and the separate units of the Montana university system. Consequently, the college is required to use the Board of Investments.

Deposit of all college moneys with the state treasurer would not only aid in developing the uniform statewide university accounting system discussed previously, but would also facilitate the investment of college moneys by the Board of Investments.

RECOMMENDATION

We recommend that the college:

1. *Deposit all moneys in the state treasury.*
2. *Utilize the investment services of the Board of Investments.*

ACCOUNTING PROCEDURES

The accounting profession has established principles of accounting designed to make college and university financial statements present fairly the results of the college's activities and its account balances. Specific instances where generally accepted accounting principles were not followed are discussed here. Additionally, we have described below improvements which should be made in the college's operating procedures.

Administrative Charges

The business office is funded by the institutional support program to provide accounting services for the remainder of the appropriated programs. In addition, the business office provides accounting services for various federal programs, auxiliary enterprises, and the agency

funds. The cost of accounting services should be allocated to auxiliary enterprises and any other activities not reported under the major caption, "Educational and General."

Administrative costs, which include accounting services and janitorial services, have been charged to some of these programs. For example, administrative costs have been charged to federal programs such as work study, national direct student loans and Indian research, and to auxiliary enterprises such as Morgan Hall. The charges have been based on the amount of money available in the case of the federal programs and an arbitrary amount of money in the case of Morgan Hall. None of the cost allocations were based on criteria which might indicate actual expenses incurred.

A number of programs and enterprises were not charged administrative costs. For example, the Early Childhood Education Program and the Performance Based Education Program both have federal provisions for paying administrative costs, but none were assessed. The various auxiliary enterprises require a high percentage of the business office efforts, but the only allocated expense is one individual's salary, which is charged to Morgan Hall.

Failure to distribute these expenses results in misrepresentation of the financial operations of the school and the auxiliary enterprises.

RECOMMENDATION

We recommend that the college allocate administrative costs to all auxiliary enterprises and other programs on an equitable basis.

Cash Cut-Off

Business office personnel held the cash receipts book open at fiscal year-end in both July, 1973 and July, 1974 by dating receipts

with a June date. As a result, June revenue and summer school deferred revenue and year-end cash were overstated for both years as follows:

Fiscal Year	Amount
June 30, 1973	$36,696
June 30, 1974	10,083

The practice of holding the books open to accommodate these collections is an improper accounting procedure which results in a distortion of the financial reports. Douglas F. Eigeman and Co., Certified Public Accountants, also took exception to this procedure in their audit report on Northern Montana College dated June 30, 1972. The college's accounting records should be closed at the fiscal year-end and any amounts collected subsequent to year-end should be recorded in the following year.

RECOMMENDATION

We recommend that the college close the cash receipts books at fiscal year-end.

Inactive Accounts

There are numerous inactive asset accounts maintained in the college's general ledger. We identified 22 such accounts with their accompanying credit entries. Some of these accounts have had no activity since the early 1960's. For example, account number 5040, Project Construction Fund NMC Fire Insurance Clearing Account, which has been inactive since 1966, contains $17,000 in insurance proceeds. The college borrowed $3,000 from this account for a limited period of time, but the original purpose of the funds no longer exists since the lost buildings are not to be replaced. Pursuant to Section 78-1101, R.C.M. 1947, this money should revert to the funds from which the insurance premiums were paid.

A second example of a dormant account is account number 2082, Health Insurance Reserve. This account balance of $382 remains from a previously existing health insurance plan. The purpose of this account and many of the other accounts no longer exists, and there is no need to incur the continuing expense of maintaining the accounts. Remaining cash balances should be evaluated as to their legitimate disposal and the accounts should be closed accordingly.

RECOMMENDATION

We recommend that the college evaluate the balances remaining in dormant general ledger accounts and close those accounts that are no longer useful.

Vault Record Storage

A continuing evaluation of accounting record retention is needed. Records in vault correspondence files are not maintained in a systematic manner, and all records stored in the vault are overcrowded by an accumulation of outdated, inactive records. We noted that almost half of the records maintained in the vault date back more than 15 years, with some records dating back 45 years. This problem has been mentioned in reports by other auditors. The records should be evaluated for usefulness, and unneeded records should be destroyed or moved to an inactive storage area. In this regard, Section 82-3313, R.C.M. 1947, governs the destruction of records and specifies the required procedures.

RECOMMENDATION

We recommend that the college review the records in its custody and dispose of those records which are unneeded.

Checks Written For Bookkeeping Purposes

The college writes numerous checks each month on local bank accounts to accomplish the recording of bookkeeping entries. An estimated 420 checks per year are written from Northern Montana College to Northern Montana College using local bank accounts. Most of these checks are deposited in the same bank account they are drawn on. This use of a checking account is inefficient because the check-writing process has built-in control and procedures necessary to transfer cash outside the agency which are not necessary for intra-agency transactions.

Checks should not be used to generate bookkeeping entries. Journal vouchers are more efficient for this purpose.

RECOMMENDATION

We recommend that the college use journal vouchers to record internal transactions.

College Work Study Expense

College Work Study payments to students are financed from two sources. Eighty percent are paid from a federal grant, and twenty percent are paid from state appropriated funds. The expenditures relating to these payments are charged to two departments. The state's share of the payment is charged to the department receiving the benefit of student work. In contrast, the federal share is charged to a student aid account and is not allocated to the departments. To provide full disclosure of the expenditures relating to each department, the federal portion of work study salary expense should also be charged to the department. Current treatment of the salary expense resulted in a $51,000 understatement of departmental salaries.

RECOMMENDATION

We recommend the college allocate work study expenditures to the benefited departments.

Accrual of Expenditures

It is generally accepted that the financial activities of colleges and universities are to be recorded on the accrual basis of accounting. Under the accrual system, expenditures are recorded in the accounting records at the time valid obligations are created rather than when payment is made.

The college does not uniformly accrue all expenditures. The college's financial statements reflect accruals and encumbrances of "state" appropriated moneys but do not reflect all year-end accruals relating to "local account" moneys. The present system of expenditure accrual complies with the directives of the Department of Administration which meet the needs of SBAS but misstates both local and state expenditures for the fiscal year ended June 30, 1974.

Local expenditures not accrued in fiscal year 1973-74 included local payroll amounting to approximately $9,500 and other items where goods and services were received prior to year-end but not paid until after fiscal year-end.

State expenditures were accrued at fiscal year-end but many of the items included in the financial statements as accrued expenditures are not valid liabilities of the State of Montana and, accordingly, should not have been presented as such. The college reported $58,588 of accrued expenditures for fiscal year 1973-74 and $83,533 for fiscal year 1972-73. Approximately $23,000, or 38%, of fiscal year 1973-74 accruals and $45,000, or 54%, of fiscal year 1972-73 accruals were in fact only purchase orders, not valid liabilities for the year accrued. Fiscal

year 1972-73 expenditures and liabilities were thereby overstated by $45,000. Fiscal year 1973-74 expenditures and liabilities were overstated by $23,000.

Overstated expenditures due to the reporting of encumbrances and understated expenditures due to the failure to record accruals for "local" accounts do not necessarily net each other out because the overstatements may not be for the same accounts or funds as the understatements.

RECOMMENDATION

We recommend that the college accrue all year-end expenditures which are legal liabilities, and report purchase orders by note disclosure in the financial statements.

ACCOUNTING PRESENTATION

As described earlier, the ACE has established a basic framework of fund categories to be used in educational institution accounting. The college has established these fund categories in accordance with this guideline. However, in several instances the college records account balances and activity under fund categories where they do not belong.

Agency Funds

The college acts as custodian or fiscal agent for school related groups such as Western Club, Publications Board, or the Children's Theater. In this capacity the college business office pays bills, deposits revenue, and performs other fiscal tasks. These types of transactions are classified as agency fund transactions and are accounted for separately from the financial activity relating to the college operation.

In addition to the type of accounts mentioned above, the college includes many accounts in the agency funds which should be included in the unrestricted and restricted current fund categories.

For example, the college classifies student activity and yearbook fees as agency funds rather than state or public money. In 35, Opinions of the Attorney General, No. 74, dated March 20, 1974, the Attorney General held that this money is public money. In this regard, their use is designated by the school. Consequently, they meet the criteria for unrestricted current funds.

Administrative cost reimbursement accounts also meet the criteria for unrestricted current funds. Income from these accounts is used to augment the college's operating budget. When these amounts were recorded as agency fund accounts in fiscal year 1973-74, expenses of $2,400 and income of $6,700 were omitted from the college budget. These accounts had a remaining cash balance of $40,600 at June 30, 1974, which should have been considered in the college "educational and general" budget. Future estimated income to these accounts should be budgeted and the related expenditures should be charged to the proper appropriations.

In total, based on our evaluation of the accounts and activity classified under agency funds, the following balances and activity did not belong in agency funds as of June 30, 1974.

	Cash, receivables and Investments	Income	Expenditures
Unrestricted current funds improperly classified as Agency funds	$ 78,950	$ 51,008	$ 29,617
Restricted current funds improperly classified as Agency funds	93,868	143,989	159,279
Total	$172,818	$194,997	$188,896

Restricted Funds

The college has auxiliary enterprises consisting of the student union, the housing and dining facility, the armory gym, the student and faculty housing, athletics and the parking lot. The account balances and transactions relating to these enterprises are recorded as restricted current funds. Auxiliary enterprises should be considered unrestricted current funds and the college should account for them accordingly.

The college also records non-resident building fees under restricted current funds. These accounts belong in the unrestricted current funds.

RECOMMENDATION

We recommend that the college revise its accounting practices in accordance with generally accepted accounting principles by recording current fund account activity and balances in the proper fund.

FINANCIAL STATEMENTS

The college's financial statements do not conform to generally accepted reporting standards in several respects. The following items were omitted from the primary financial statements and should be included if disclosure is to be in accordance with accepted guidelines.

1. Accounting policies should be described in accompanying footnotes. They should disclose:
   a) Method and timing of recognizing income and expenses.
   b) Method of asset valuation.
   c) Method of costing inventories and a statement as to whether inventories are presented at the lower of cost or market value.
   d) Method of investment valuation.

2. Primary financial statements should be separated from supplementary information and supplementary information should be labeled as such.
3. A detailed description of debt should be presented, i.e., (1) interest rate, (2) bondholder, (3) installment due dates and amounts, and (4) reserve requirements.
4. The financial report should disclose whether or not the school is in compliance with bond indentures. Pledged revenues should be fully disclosed.
5. Retirement plans for college personnel should be described and the college's commitment should be disclosed.
6. The primary financial statements should include statements of changes in fund balances. Currently included are statements of changes in cash.
7. Deferred revenue should be separated from other revenue.
8. The primary financial statement footnotes should disclose that the value of the land for the college campus is not included in the plant fund assets.
9. The financial statements should be prepared on the accrual basis of accounting.
10. The primary financial statements should include a statement of changes in the endowment fund balance.
11. The primary financial statements should not include a statement of changes in agency funds.

RECOMMENDATION

We recommend that the college revise its financial reporting practices in accordance with generally accepted guidelines for colleges and universities.

INTERNAL CONTROL

Segregation of Duties

Internal control should allow safeguarding the college's assets and should assure the reliability of the financial records. In the interest of efficiency, various college personnel are now assigned the full responsibility and authority for carrying out transactions without separation of duties sufficient to provide management control of these transactions. Inadequate separation of duties places an individual in a position both to perpetrate and to conceal errors or irregularities in the normal course of his duties. In addition to jeopardizing college assets, an unfair burden is placed on the employee by making him solely responsible for the assets and the records of the assets.

The payroll clerk is one example of an individual in this position. The payroll clerk maintains all payroll records, prepares the monthly college payrolls, receives the checks, records the checks, and distributes checks to employees. Preparation of the payroll should be separated from recording the payroll. Similarly, checks should be distributed by someone who neither creates nor records payroll transactions.

A second example of weak internal control is in student aid receipts and disbursements. The financial aid director authorizes financial aid payments to students. These payments are made by check and are normally distributed by the business office; however, one week after registration the unclaimed checks are given to the financial aids office. Financial aid personnel state that this is necessary to determine which students' checks may still be distributed and which ones should be cancelled.

The financial aids office also receives student loan payments and records them. These checks are sometimes held in the financial aids office for several weeks before they are turned over to the business

office for deposit. On October 18, 1974, a "batch" of forty (40) checks amounting to $1,537 was deposited with the college cashier by financial aid personnel. Many of the checks were dated in late September, which indicates they had been held a considerable length of time. Financial aid personnel state that this practice provides a method of recording students' loan payments. Neither the student aid checks nor the loan cash receipts should be handled by the financial aids office. The business office should control all college disbursements and all receipts of cash. Lists of unclaimed checks and lists of loan payments received would provide the necessary input to update financial aid records without sacrificing internal control.

Additional guidelines which apply to weaknesses due to inadequate segregation of duties are as follows:

(1) Employees handling cash should not have access to the receipt or disbursement records.

(2) Change fund cash counts and reconciliations should be periodically supervised by the treasurer.

(3) Access to each cash drawer should be limited to the cashier responsible for the drawer's contents.

(4) Duties relating to preparing and mailing claims and checks should be segregated from those relating to the recording in the disbursements journal and posting of the general ledger.

(5) Control of student union purchasing, inventory, sales and records should not be delegated to one individual.

These examples are not all inclusive but are the primary areas where separation of duties will substantially improve internal control.

RECOMMENDATION

We recommend that:

1. *Payroll creation, recording, and distribution duties be placed with separate employees.*
2. *The business office control all cash disbursement checks and cash receipts for student aid.*
3. *Other employees' duties be segregated in a manner which will provide adequate internal control.*

Centralized Receipt of Cash

The college does not receive all cash through the business office. Here are some examples:

1. Loan repayments are mailed directly to the financial aids office, accumulated there, and turned over to the business office at infrequent intervals.
2. The registrar collects application fees of $10 for each new student applying for admission to the college.
3. The physical plant sells parking permits and remits the collections to the business office cashier.

The practice of decentralized cash receipts collection reduces control by allowing more people to be involved in the cash collections and by lengthening the time lag between collection and deposit. The college should require, as a general rule, that all payments be made at the business office. An exception could be money collected in conjunction with auxiliary enterprise operations.

RECOMMENDATION

We recommend the college require that payments be made at the business office.

Intact Deposits

The college converts restrictively endorsed checks to currency at the bank to replenish the business office change fund. This is done by crossing out the restrictive endorsement on the back of checks and writing "for change" on the back. This practice is dangerous because it encourages the bank to disregard the restrictive endorsement. The use of the restrictive endorsement is designed to prevent cash loss by unauthorized persons cashing college checks. The college should restrictively endorse all checks and deposit cash intact. When change is needed, a check should be written to obtain the amount of change necessary.

RECOMMENDATION

We recommend that the college require all cash receipts be deposited intact.

Safekeeping of Cash

The college keeps the business office change fund and daily cash receipts in a locked file cabinet inside the business office vault. The vault combination has not been changed since its installation over 20 years ago. The college vault combination is known to four present employees plus several past employees of the college. Adequate control of the cash in the vault can be maintained only by controlling access to the vault. The vault combination should be changed periodically.

During the workday, the keys to the cash drawers are accessible to all business office personnel. These keys also provide access to the balance of the cash fund in the file cabinet inside the open vault.

This easy access to cash increases the risk of cash loss. Keys which control access to cash should be controlled to prevent unauthorized use.

RECOMMENDATION

We recommend that the college:

1. *Change the safe combination.*
2. *Require that cash safekeeping facilities be properly secured.*

Cash Disbursement Control

Business office personnel regularly use correction fluid to correct typing errors on checks. This practice eliminates the control provided by the control paper upon which the check is printed. The control paper feature of checks allows easy detection of unauthorized alteration. When checks are altered by painting out amounts, payees and dates, and retyping them, college and bank employees become accustomed to seeing the alterations and cease questioning them. This situation increases the possibility of unauthorized check alterations being undetected.

The college does not cancel invoice documentation of the claims submitted for approval. Cancellation of such documentation would prevent re-use of the same invoice for claim documentation.

RECOMMENDATION

We recommend that the college:

1. *Void checks which have errors and prohibit the issuance of altered checks.*
2. *Cancel all invoices when approved to prevent re-use.*

Collateralization of Local Bank Accounts

Section 79-301, R.C.M. 1947, requires that banks receiving public moneys for deposit pledge securities as collateral in an amount in excess of the amount of the deposits. The purpose of this provision is to insure the state against potential loss of deposited moneys.

We noted several instances when the collateral pledged as security was insufficient to meet the required amounts in two of the local checking accounts. The deficiencies ranged to $94,158 in the larger checking account and $71,341 in the smaller checking account. The larger account was deficient 19 days, and the smaller account was deficient 62 days during fiscal year 1973-74.

Ordinarily the state treasurer is reponsible for ensuring proper collateralization for state moneys in banks. In the case of the college, however, the state treasurer is not informed of the amount of money deposited in banks. The college's "local" bank accounts are currently outside the purview of the state treasurer; consequently, the treasurer has no routine means of determining the amount of money on deposit or the extent to which it is collateralized.

The statutory requirement for collateralization pertains to all public moneys. Accordingly, the college should establish procedures to ensure that its deposits are properly collateralized.

RECOMMENDATION

We recommend that the college establish procedures to ensure that college deposits in local bank accounts are properly collateralized as required by Section 79-301, R.C.M. 1947.

PAYROLL

Central Payroll System

The college currently is not under the state central payroll system. College payroll claims are prepared locally for the four separate payrolls each month. Checks for two of the payrolls are now being processed in Helena by the same data processing and administrative systems which handle the central payroll system for other state agencies. The checks for the other two payrolls are recorded manually in payroll registers and are written by hand in the college business office.

Two of the payrolls are prepared at the end of the month for employees receiving payment from state appropriated funds; one payroll is prepared for employees paid from local programs and the other payroll is prepared for work study employees. Often an employee's wages come from more than one source and consequently he may receive up to three checks in a month. The separate payrolls must coordinate employees' total withholding for income taxes, social security and retirement. The college could eliminate payroll duplication and manual recordkeeping by using the state central payroll system. Additionally, if all payroll systems were automated, the college could more easily obtain payroll management information.

Salaried employees are paid on the last day of each month for work performed during that month. This payroll is prepared under the assumption that all salaried employees will work the entire month. Due to employee time off without pay and mid-month terminations, this practice can produce checks for services not rendered. Placing the college on central payroll would correct this situation in that the central payroll system operates on an after-the-fact basis.

The college prepares monthly checks for each payroll for the amounts of the federal and state taxes payable. These checks are held until the quarterly payments are due. A similar procedure is followed in the retirement programs. Sending these groups of checks to the state and the federal treasuries is unnecessary and inefficient. Additionally, if cash balances were properly recorded, these moneys could be invested by the state until taxes are due. Bookkeeping entries should enable the college to use one check to make the periodic payments as they become due.

Inefficiencies currently in existence at the college would be corrected if the college payrolls were placed on the central payroll system. Our discussions with college personnel indicated that they are interested in using the system and would like to develop the procedures necessary to make this possible. During fiscal year 1973-74, the college was contacted by personnel of the central payroll division of the State Auditor's Office, and payroll division personnel were to visit the college to discuss the college's potential use of the central payroll system. This has not been done.

Payroll division personnel stated that funds are now available to develop system modifications for the smaller units of the university system and that tentative plans are to go ahead with this development.

RECOMMENDATION

We recommend that the College work with the Central Payroll Division of the State Auditor's Office to develop modifications of the central payroll system to meet the college's needs.

Personnel Management

The college personnel management system is deficient in the following areas:

1. The system has no centralized personnel filing system. A file for each employee should include an application for employment, an employment document, authorizations for transfer and pay rate changes, a current W-4 form, annual and sick leave records, termination documentation, and other correspondence pertaining to the employee. Currently the college does not have these personnel records or they are filed in various places in the business office. To verify authorization for a pay rate increase for an employee, it is necessary to review hundreds of memo-authorizations for status changes because all such authorizations are filed together by date. This informal personnel status authorization "file" includes letters, memos, and scratch pad notes, and only certain categories of employees are included in the file.

2. The college requires no standardized application for employment. An employment application should provide job history and employment information useful for evaluation of potential job applicants. The application would also provide an employee's signature which could be used as reference for W-4 signatures, time card signatures, and pay check endorsements. The college should require each prospective employee to fill out an application for employment. This application should be maintained in the permanent employee file.

RECOMMENDATION

We recommend that the college:

1. *Establish payroll files for each college employee.*
2. *Require an application for employment for each new employee.*
3. *Document authorization for employment status changes.*

Employee Leave Records

The college maintains sick leave records for all college employees; however, annual leave records are not maintained for certain administrative employees who accrue and use annual leave. College personnel explained that annual leave earned for these administrative employees is not recorded because the amount of leave earned is not clearly established by Board of Regents policy.

Without leave records the college has little control over the actual leave an administrative employee may use. Employee leave balances are a liability of the state since payment is made to each terminating employee for any unused leave balance. Without annual leave records the college has no objective basis for making this payment.

On June 30, 1974, existing college leave records showed April 30, 1974, leave balances. Leave records had not been updated beyond April 30, at August 24, 1974. These non-current balances allowed possible overuse of leave by employees. Leave records should be maintained on a current basis.

RECOMMENDATION

We recommend:

1. *That the Board of Regents establish a policy relating to leave earned by administrative personnel.*
2. *That the college maintain leave records for all employees.*

STUDENT AID

The college financial aids office grants scholarships and loans to students selected in accordance with criteria set forth in scholarship or loan agreements. Student files reflect authorization for loan and scholarship payments, but the students' files do not reflect when and if the authorized payments were made. Numerous student scholarships and loans granted during fiscal year 1973-74 were not accepted or received by the authorized student recipients. However, because the financial aids office did not effectively follow up on these unused scholarships and loans, these student aid resources were not redistributed.

The status of all available student aid should be continually updated, and when a student refuses a scholarship or loan the possibility of awarding the aid to another qualified student should be considered.

RECOMMENDATION

We recommend that the college develop follow-up procedures to determine the current status of all student aid resources.

Fee Waivers

Montana law provides for six classes of student fee waivers: (1) Montana veterans, (2) non-resident, (3) Indian, (4) inmates of custodial institutions, (5) war orphans, and (6) students over 62 years of age. The college awarded $42,791 in statutory fee waivers. In addition, they waived fees of $35,260 which are not authorized by law but by the Board of Regents. The need for statutory authority for all fee waivers has been discussed in our reports pertaining to other university units (University of Montana, June, 1975; Eastern Montana College, June, 1975) and the associated comments are valid here.

Montana's new Constitution has raised questions of whether the legislature or the Board of Regents has authority to waive fees. Because this issue raises constitutional questions, we have made no recommendations relating to fee waivers in this report. Instead, we are requesting an Attorney General's opinion on this subject.

Deferred Student Fees

In September, 1972, the Board of Regents established a policy (Board item 3-004-R1273) allowing the university units to defer the payment of student fees. The policy is intended to allow students to pay their fees over an extended period rather than all at once.

The board policy stipulates that (a) at least one-third (1/3) of the total fee must be paid at the time of enrollment, (b) another one-third (1/3) is to be paid within 30 days, and the final one-third (1/3) is to be paid within 60 days of enrollment. There are a number of areas where weaknesses exist in the implementation of this policy by the college.

The Board of Regents policy allowing the college to defer fees states that "an administrative charge shall be levied in amount of $5 per quarter." The college has been assessing the charge in accordance with the board item, but the moneys generated have not been transferred to the state treasury. Although the student fees themselves are deposited in the state treasury, the associated service charges are not. Instead, money derived from the service charges is held in a local bank account. During fiscal year 1973-74 the college collected more than $1,600 in $5 service fees from students on the deferred payment plan. The college plans to use this money to offset bad debts of the deferred payment program.

The Board of Regents' intended use of the administrative charge is not clear. College officials should seek clarification from the regents as to whether the administrative charge is designed to reimburse the business office for expenses incurred in administering the deferred payment plan, or whether the fee is intended to be used to offset bad debts.

RECOMMENDATION

We recommend that the college determine the proper use of administrative charges for deferred fees.

RECEIVABLES

The college reported over $800,000 in accounts receivable at June 30, 1974. These receivables were composed almost entirely of student loans and grants which had been awarded to the college.

Deferred Fees Receivable

Allowing deferred payment of fees is one form of student loan. Students who defer payment of a portion of their fees have incurred a debt to the college; however, the college does not recognize this in its records. At year-end, for example, students had deferred $4,000 in summer school fees. Also outstanding were $2,100 in fees deferred for quarters prior to year-end. As a result, receivables were understated by $6,100 in the financial statements, revenue was understated by $4,000, and deferred revenue was understated by $2,100.

RECOMMENDATION

We recommend that the college recognize all receivables and the related income in its financial statements.

Grant Receivables

The college records receivables relating to federal grants for programs such as Basic Educational Opportunity Grants, Work Study, National Direct Student Loans, etc., at the time the award document is received. An offsetting liability is also recorded at this time. Most of these amounts have not been earned by the college and are not valid receivables under generally accepted accounting principles. At June 30, 1974, the college balance sheet was inflated by approximately $341,000 in invalid receivables and by the same amount in offsetting liabilities. These amounts are recorded on the college's accounting records to aid the college business office in preparing the required federal reports for the programs. Grant awards could be recorded in memorandum accounts to aid federal report preparation but eliminated in preparing the college's financial statements.

RECOMMENDATION

We recommend that the college report in its financial statements accounts receivable in accordance with generally accepted accounting principles.

Allowance for Doubtful Receivables

The college has $439,000 in loans receivable from the student aid loan programs. During our audit we estimated that $31,000 of these receivables were past due by a year or more, or were deemed uncollectible by the college. The college also reported receivables of $2,557 in past due board and room and $558 in past due deferred fees.

The doubtful nature of these receivables is not disclosed in the college's financial statements, and they result in an approximate overstatement of the college's assets of $34,000. Additionally, bad debt

expense should be recognized when receivables are determined to be uncollectible. When program restrictions do not permit writing off the bad debts, a reserve for doubtful accounts should be established.

RECOMMENDATION

We recommend that the college establish an allowance for doubtful accounts and recognize the bad debt expense related to uncollectible receivables.

Control of Notes Receivable

The original student loan notes are kept in the vault in the business office. The notes are in an unlocked file accessible to all business office employees, including those employees who receive the loan payments and post the loan ledgers. This internal control weakness could allow an employee to receive a loan payment, keep it for himself, and record it in the college loan records without the borrower or the college discovering it.

The vault is a logical place to protect the notes, but they should be kept in a locked file cabinet with access available only to employees of the financial aids office.

RECOMMENDATION

We recommend that the college secure student loan notes and grant access only to employees of the financial aids office.

PLANT, PROPERTY AND EQUIPMENT

Physical Inventory

The college last took a physical inventory of fixed assets in 1959. A perpetual inventory has been maintained since that time. Net additions to the inventory for fiscal year 1973-74 were $192,000, which brought the total book value of the college's fixed assets to $11,440,185.

The purpose of recording general fixed assets is primarily the need for stewardship in providing for physical and dollar value control and secondarily for an accountability for general government capital expenditures over the years. Carrying out the primary purpose of fixed asset records stated above, the college has carefully maintained the perpetual inventory records to permit management and dollar value controls. A secondary purpose requires a physical verification of the existence of the college assets. The significant total value of the assets and the large amount spent annually dictates that a physical inventory should be taken at least every two years.

It has been more than 15 years since the college last used a physical inventory to prove the accountability for fixed assets. The college should take a physical inventory of all assets.

Equipment Identification

During our tests of the perpetual inventory it was difficult to identify specific pieces of equipment and scientific apparatus because the generic nomenclature used on the inventory listings frequently applied to more than one item. Identification tags or marking tapes are necessary to facilitate taking a physical inventory. Such tags are currently not used at the college.

RECOMMENDATION

We recommend that the college:

1. *Take a periodic physical inventory of fixed assets.*
2. *Provide for the placement of an identification tag on all equipment.*

Lease-Purchase Agreements

In 1967 the college student union bowling alley bought pinsetters on a lease-purchase agreement, with payment based on the number of lines bowled and with the total cost to be $33,953. The final payment was made in 1974. All indications are that at the time of acquisition the intention was to purchase the pinsetters. Generally accepted accounting principles prescribe that assets acquired under lease-purchase agreements, which are used as a method of purchase financing, should be recognized at full value in the accounting records, with accompanying recognition of a liability for the unpaid amount. This was not done in the instance of the bowling pinsetters.

RECOMMENDATION

We recommend that the college disclose the acquisition of assets through lease-purchase arrangements in its accounting records and financial statements.

Construction in Progress

At the end of each fiscal year during the construction of the new women's dormitory, the expenditures for construction were capitalized in the building and equipment accounts. This is the standard method of recording construction in progress by the college. Construction in progress is thereby given the value of a completed and existing asset and there is no disclosure of the contingencies accompanying building

construction. Assets under construction should be reported as such until the new buildings are completed, inspected, and accepted.

The college uses an entry to a "reserve for investment in fixed assets" as the offsetting equity entry for construction in progress assets. At June 30, 1974, there was $945,000 recorded in this account, although all but one small project was completed prior to that date. The proper offsetting entry for construction in progress would be a credit to "investment in plant."

RECOMMENDATION

We recommend that assets under construction be recorded in a "construction in progress" account with an offsetting entry to "investment in plant."

PERMANENT RECORDS

It is general practice at the college to make corrections in the permanent records, such as the general ledger, using ink eradicator to remove the initial entry before replacing it with the correct entry. This is done to save time in correcting clerical errors. As a result, the correcting entries cannot be relied upon because there is no way to determine the source or basis for the entry. This creates the following problems in using the records:

1) Audited records cannot be relied upon at a future date because the time of the correction cannot be determined.
2) Accounting personnel are unable to trace offsetting error corrections.
3) The accounting records do not reflect all transactions so the possibility for misuse of funds is increased.

The college should make correcting entries in a manner that will allow tracing the corrections. For a posting error, this could be accomplished by drawing a line through the improper amount and initialing it. For other corrections, reversing entries should be prepared.

RECOMMENDATION

We recommend that the college establish a procedure for making correcting entries in a manner that will allow tracing the corrections.

FINAL COMMENTS

We have reviewed the comments and recommendations contained in this report with the President of Northern Montana College and the Commissioner of Higher Education. The full text of the college's response is included on page 47 of this report.

This is one of seven audit reports on the Montana university system units and the Office of the Commissioner of Higher Education. As is the case with audit reports previously published, some findings and recommendations in the report have system-wide implications. Implementation of some recommendations should be initiated by the Board of Regents. Other recommendations require the college's working in cooperation with various state agencies. College officials have indicated that they will work in cooperation with the Board of Regents and other state agencies to resolve these issues.

We wish to express our appreciation to the college's and commissioner's office employees for their cooperation.

<u>FINANCIAL STATEMENTS</u>

BALANCE SHEET
June 30, 1974

ASSETS

Current Funds		
Unrestricted		
Educational and general		
Cash, including $261,946.18 in State Treasury	$372,786.89	
Current State appropriation	58,588.07	
Contingent Revolving Funds Receivable	1,380.11	$432,755.07
Auxiliary enterprises		
Cash	$ 2,395.52	
Investments in State Investment Pool	16,092.74	18,488.26
Total unrestricted assets		$451,243.33
Restricted		
Auxiliary enterprises		
Cash	$103,495.79	
Accounts receivable	14,446.95	
Investments, including $77,359.02 by the State Investment Division	90,359.02	
Student Union inventories	55,755.88	$264,057.64
Student Aid		
Cash		
Federal government portion of the Work Study Programs	$ (2,735.65)	
BEOG	(34.00)	
SEOG	(871.60)	
Other	12,798.14	
	$ 9,156.89	
Investments	8,825.00	
Grants receivable	81,558.58	99,540.47
Total restricted assets		$363,598.11
Total current fund assets		$814,841.44

LIABILITIES AND FUND BALANCES

Current Funds		
Unrestricted		
Educational and general		
Deferred income - June collection	$109,220.82	
Accrued liabilities	58,588.07	
Other liabilities	245.88	
Contingent revolving fund	3,000.00	
Fund balance	261,700.30	$432,755.07
Auxiliary enterprises		
Fund balance	$ 18,488.26	18,488.26
Total unrestricted liabilities and fund balances		$451,243.33
Restricted		
Auxiliary enterprises		
Accounts payable and deferred income	$ 5,768.26	
Other liabilities	1,758.94	
Fund balance	256,530.44	$264,057.64
Student Aid		
Accrued expenses - Work Study program	$ 2,159.33	
Liabilities for 1974-75		
Federal government grants		
Work Study	30,670.00	
Nursing scholarship	2,745.00	
BEOG	26,950.00	
SEOG (Initial)	5,607.00	
SEOG (Continuing)	9,786.00	
	$ 75,758.00	
Fund balance	$ 21,623.14	99,540.47
Total restricted liabilities and fund balances		$363,598.11
Total current fund liabilities and fund balances		$814,841.44

EXHIBIT A

NORTHERN MONTANA COLLEGE
BALANCE SHEET
June 30, 1974
(Continued)

ASSETS		LIABILITIES AND FUND BALANCES	
lant funds		Plant funds	
Unexpended		Unexpended	
Cash, including $17,140.12 in State Treasury	$ 18,228.12	Fund balances	
Appropriations with Division of Architecture and Engineering for construction	96,753.52	Reserve for transfers to Division of Architecture and Engineering	$ 96,753.52
Investments, including $14,232.44 in State Investment Fund	38,014.76	Restricted for plant additions	17,140.17
		Unrestricted	39,102.71
Total unexpended plant fund assets	$ 152,996.40	Total unexpended plant fund liabilities and fund balances	$ 152,996.40
Retirement of indebtedness		Retirement of indebtedness	
Cash on hand	$ 11,461.82		
Investments, including $41,185.80 in State Investment Pool	56,002.44		
Deposits with trustees			
Cash, including $78,661.75 in State Treasury	85,278.89	Fund balances	$ 656,858.50
Investments, including $24,000 in State Treasury	504,115.35		
Total retirement of indebtedness assets	$ 656,858.50	Total retirement of indebtedness liabilities and fund balances	$ 656,858.50
Investment in plant		Investment in plant	
Land and buildings	$ 9,491,048.26	Bonds payable	$ 3,608,000.00
Equipment and other	1,949,136.83	Reserve for investment in fixed assets	945,560.92
Total investment in plant assets	$11,440,185.09	Net investment in plant	6,886,624.17
		Total investment in plant liabilities and fund balances	$11,440,185.09
Total plant funds assets	$12,250,039.99	Total plant funds, liabilities and fund balances	$12,250,039.99
gency funds		Agency funds	
Cash	$ 97,745.62	Accounts payable	$ 42,991.41
Accounts receivable, including $234,910.00 grants receivable	236,279.38	Fund balances	355,215.85
Investments, including $46,506.12 in State Investment Pool	64,182.26		
otal agency fund assets	$ 398,207.26	Total agency funds liabilities and fund balances	$ 398,207.26

EXHIBIT A (Cont.)

NORTHERN MONTANA COLLEGE
BALANCE SHEET
June 30, 1974
(Continued)

ASSETS		
Loan funds		
Cash, including $16,803.96 for Federal Nursing and National Defense and Direct Loan Programs		$ 19,695.59
Notes receivable		
Local funds	$ 4,504.61	
Federal Nursing and National Defense and Direct Loan	434,861.97	439,366.58
NIH Grants and NMC matching receivables 1974-75		34,150.00
Total loan funds assets		$493,212.17
Endowment funds		
Investments		$ 5,600.00

LIABILITIES AND FUND BALANCES		
Loan funds		
Accounts payable		$ 933.33
Fund balances		
Federal government grants	$422,197.76	
Institution capital contributions	61,373.69	
Available for matching federal loans	2,244.48	
College funds	6,462.91	492,278.84
Total loan funds liabilities and fund balances		$493,212.17
Endowment funds		
Fund balance		$ 5,600.00

EXHIBIT B

NORTHERN MONTANA COLLEGE

STATEMENT OF FUNDS AVAILABLE FOR CURRENT EXPENDITURES

For the Year Ended June 30, 1974

	Unrestricted	Restricted
Beginning fund balances		
Student fee earmarked revenue	$ 59,110.42	
Federal and private revenue	240,574.09	
	$ 299,684.51	
Revenues		
Educational and general		
Miscellaneous student fees	$ 1,578.28	
Equivalent fee waiver income		$ 78,051.16 (1)
Extension Fees	35,387.00	
Governmental appropriations, including $257,374.43 in student fee earmarked revenue	1,999,330.43	
Governmental grants and contracts	5,000.00	
Sales and services of educational departments	610.60	
Vocational and other reimbursement	36,457.36	
Other sources	503.00	
Total educational and general	$2,078,866.67	$ 78,051.16 (1)
Current funds reverting to State General Fund	$ (134,317.16)	
Funds allocated for stale-dated warrants	(245.88)	
Total amount available for expenditure for the year ended June 30, 1974	$2,243,988.14	$ 78,051.16 (1)
Less ending fund balances		
Student fee earmarked revenue	$ 68,840.02	
Federal and private revenue	192,860.28	
	$ 261,700.30	-
Actual expenditures for the year ending June 30, 1974	$1,982,287.84	$ 78,051.16 (2)

(1) Equivalent student fee waiver income

(2) Equivalent student fee waiver expenditures

EXHIBIT C

NORTHERN MONTANA COLLEGE
STATEMENT OF CURRENT EXPENDITURE BY PROGRAM
For the Year Ended June 30, 1974

Program	Personal Services	Maintenance and Operation	Capital	Total
Instruction	$1,014,651.90	$ 70,563.75	$ 44,590.33	$1,129,805.98
Public service	17,861.61	5,127.76		22,989.37
Academic support	142,071.36	26,008.43	56,368.58	224,448.37
Student services	78,622.10	5,940.70	270.25	84,833.05
Institutional support	172,628.99	60,912.07	365.42	233,906.48
Operation and maintenance of physical plant	191,424.92	90,533.58	4,346.09	285,304.59
Total expenditure for all programs	$1,617,260.88	$259,086.29	$105,940.67	$1,982,287.84**
Auxiliary Enterprises				
Intercollegiate athletics				$ 38,552.08
Faculty housing				1,548.38
Student health service				8,030.17
Armory-gymnasium				780.68
Parking facilities				479.02
Housing and dining system				386,391.38
Total auxiliary enterprises expenditures				$ 435,781.71
Student Aid				
Scholarships				$ 25,620.14
Work study program - college				51,280.31*
BEOG				6,206.00
SEOG				26,491.60
Nursing scholarship				9,290.00
Other student aid - fee waivers				78,051.16**
Total student aid expenditures				$ 196,939.21
Total current expenditures				$2,615,008.76

* Does include accrued expenditures of $2,159.33
** Total expenditures for all programs do not include fee waivers of $78,051.16 which are shown as student aid

EXHIBIT D

NORTHERN MONTANA COLLEGE
SUMMARY OF CHANGES IN AUXILIARY ENTERPRISES CASH
For the Year Ended June 30, 1974

		Additions				Deductions			
	Balance July 1, 1973	Interest Income	Other Income	Return of Investments	Other Including Transfers	Investment	Expenditures	Transfers Out	Balance June 30, 1974
Restricted									
Parking facilities	$ 791.13		$ 7,706.00				$ 479.02	$ 3,000.00	$ 5,018.11
Armory gym	--	$1,586.32	66,658.64				780.68	67,464.28 (1)	
Intercollegiate athletics	1,195.05		39,398.33		$ 16,701.24		38,552.08	17,977.19	765.35
Non-resident building fee			2,698.95					2,698.95 (1)	
Health fees	915.89		8,570.17				8,213.17		1,272.89
Housing and dining system	91,524.45	6,524.65	505,051.18	$255,267.93	128,956.89	$214,034.58	386,391.38	297,827.22	89,071.92
Other housing	6,742.83	382.28	6,613.66			5,000.00	1,374.25		7,364.52
Total restricted auxiliary enterprise activity	$101,169.35	$8,493.25	$636,696.93	$255,267.93	$145,658.13	$219,034.58	$435,790.58	$388,967.64	$103,492.79
Unrestricted (Housing)									
Other housing	$ 2,684.58	$1,064.31	$ 1,021.57	$ 61,196.78		$ 63,397.59	$ 174.13		$ 2,395.52
Total auxiliary enterprises	$103,853.93	$9,557.56	$637,718.50	$316,464.71	$145,658.13	$282,432.17	$435,964.71	$388,967.64	$105,888.31

(1) Net transfers to plant funds.

EXHIBIT E

NORTHERN MONTANA COLLEGE
SUMMARY OF CHANGES IN STUDENT AID CASH
For the Year Ended June 30, 1974

	Additions			Deductions		
	Balance July 1, 1973	Income	Other Receipts	Expenditures	Other Expenses	Balance June 30, 19
Scholarship funds, local	$7,675.00	$30,743.58	$ 626.26	$ 25,620.14	$ 626.56	$12,798.14
Educational opportunity grant	(474.90)		474.90			
Basic educational opportunity grant		6,172.00		6,206.00		(34.00
Supplemental educational opportunity grant		25,620.00		26,491.60		(871.60
Federal nursing scholarship		9,290.00		9,290.00		
Work study program, federal funds	(679.44)	--	49,741.10	49,120.98 (1)	2,676.33 (2)	(2,735.65
Work study program, institutional matching	(115.70)	--	9,106.79	--	8,991.09	--
Total student aid cash	$6,404.96	$71,825.58	$59,949.05	$116,728.72	$12,293.98	$ 9,156.89

(1) Does not include accrued expenditure of $2,159.33

(2) 1972-73 accrued expenditures

EXHIBIT F

NORTHERN MONTANA COLLEGE
SUMMARY OF CHANGES IN LOAN FUNDS CASH
FOR THE YEAR ENDED JUNE 30, 1974

	Additions				Deductions			
	Balance July 1, 1973	Loans Repaid	Other Receipts	Transfers	Loan Disbursements	Transfers	Other Disbursements	Balance June 30, 1974
National Defense and Direct Loan	$2,032.81	$41,070.88	$43,368.47	$4,418.22	$75,979.00	$	$3,084.15	$11,827.23
Federal Nursing Student Loan	1,415.49	6,750.79	7,005.97		12,440.00			2,732.25
Miscellaneous available for matching Federal loans	(111.54)		7,738.70	1,727.83		7,110.51		2,244.48
United Student Aid	50.00					50.00		
College Loan Funds	2,461.04	20,922.00	50.30	325.00	20,274.00	325.00	267.71	2,891.63
	$5,847.80	$68,743.67	$58,163.44	$6,471.05	$108,693.00	$7,485.51	$3,351.86	$19,695.59

EXHIBIT G

NORTHERN MONTANA COLLEGE
SUMMARY OF CHANGES IN PLANT FUNDS CASH
FOR THE YEAR ENDED JUNE 30, 1974

Balance July 1, 1973				
Unexpended Plant Funds			$ 14,475.58*	
Retirement of Indebtedness Funds			46,920.94**	$ 61,396.52
Receipts				
For Unexpended Plant Funds From:				
1. Non-Resident Building Fees				
a. Fee Collections Transferred	$ 2,649.50			
b. Interest on Investment	2,175.14	$ 4,824.64		
2. Return to Fire Ins. Clearance Acct. of Advance to Parking Lot		3,000.00	7,824.64	
For Retirement of Indebtedness From:				
3. Earnings on Investments		41,406.21		
4. Earnings, Other				
a. Armory-Gymnasium	67,464.28			
b. Housing & Dining System	170,604.27	238,068.55		
5. From Bond Discount Payable		254.57	279,729.23	
Total Receipts				287,553.87
Total Funds Available for Expenditures				$348,950.39
Expenditures				
From Unexpended Plant Funds For:				
1. Net Increase in Investments			4,072.10	
From Retirement of Indebtedness For:				
2. Net Increase in Investments		55,684.63		
3. Debt Service on Bond & Payable				
a. Principal	58,000.00			
b. Int. & Premium	116,220.87	174,220.87		
4. Costs of Investment		3.96	229,909.46	
Total Expenditures				233,981.56
Balance in Plant Funds June 30, 1974				
Unexpended Plant Fund			$ 18,228.12***	
Retirement of Indebtedness Funds			96,740.71****	
				$114,968.84

Schedule VIII - Summary of Changes in Plant Funds June 30, 1974 - Continued

*Not including investments of	$ 33,942.66
**Not including investments of	504,433.18
***Not including investments of	38,014.76
****Not including investments of	560,117.81

Identification of Earnings on Retirement of Indebtedness Funds and Debt Service

	Earnings on Investments	Debt Service Interest	Debt Service Principal
Armory-Gymnasium	$ 6,224.70	$ 11,279.00	$ 17,000.00
Housing & Dining System	35,181.51	104,941.87	41,000.00
	$ 41,406.21	$116,220.87	$ 58,000.00

Detail of Debt Service

	Interest	Principal
Armory-Gymnasium, Series B Bonds	$ 11,279.00	$ 17,000.00
Housing & Dining System, Bonds of 1972, Series A, 3%	5,715.00	5,000.00
Housing & Dining System, Bonds of 1972, Series B, 2-3/4%	9,776.25	11,000.00
Housing & Dining System, Bonds of 1972, Series C, 2-7/8%	4,973.75	4,000.00
Housing & Dining System, Bonds of 1972, Series D, 2-7/8%	5,563.12	5,000.00
Housing & Dining System, Bonds of 1972, Series E, 3-1/8%	8,203.12	7,000.00
Housing & Dining System, Bonds of 1972, Series F, 3-3/8%	11,390.63	7,000.00
Housing & Dining System, Bonds of 1972, Series G, 3-1/2%	4,480.00	2,000.00
Housing & Dining System, Bonds of 1972, Series H, 3%	54,840.00	
	$116,220.87	$ 58,000.00

EXHIBIT H

NORTHERN MONTANA COLLEGE
SUMMARY OF CHANGES IN AGENCY FUNDS CASH
FOR THE YEAR ENDED JUNE 30, 1974

	Balance July 1, 1973	Additions: Cash Income	Additions: Other Receipts	Additions: Return of Investments	Additions: Transfers	Deductions: Invested	Deductions: Transfers	Deductions: Cash Expenditures	Balance June 30, 1974
Housing deposits	$ 5,260.32	$ --	$ 8,974.34	$ 1,246.53	$ --	$ 5,500.00	$ --	$ 9,242.05	$ 739.14
Personal deposits	3,790.49	--	268,345.29	--	--	--	--	259,937.32	12,198.46
Alumni, Booster Club & faculty accounts	6,109.99	12,781.36	--	4,312.02	1,842.00	3,173.19	9,209.25	7,088.50	5,574.43
Student organizations	26,937.44	76,812.01	54,874.83	32,742.99	18,906.67	33,219.24	20,613.95	133,960.04	22,480.71
Gifts	2,063.55	209.64	5.00	12,256.35	--	13,333.30	--	--	1,201.24
Grants & contracts	39,936.78	142,921.56	44,535.44	--	781.96	--	781.96	212,702.71	14,691.07
Payroll deduction accounts	4,719.30	--	78,265.65	--	--	--	--	78,351.33	4,633.62
Indirect Cost Reimbursements	10,931.75	1,757.73	--	96,777.93	--	108,164.59	--	--	1,302.82
College programs & Workshops	7,074.12	9,483.30	25,509.66	--	1,496.70	--	429.00	34,438.76	8,696.02
Clearing accounts	7,170.05	448.00	45,809.38	--	--	--	--	52,670.17	757.26
Other	23,186.22	7,823.83	19,679.04	1,900.00	24.96	4,140.75	24.96	22,977.49	25,470.85
Total agency funds activity	$137,180.01	$252,237.43	$545,998.63	$149,235.82	$23,052.29	$167,531.07	$31,059.12	$811,368.37	$97,745.62

AGENCY REPLY

NORTHERN MONTANA COLLEGE

MONTANA UNIVERSITY SYSTEM

HAVRE 59501

OFFICE OF THE PRESIDENT

June 6, 1975

RECEIVED

JUN 9 1975

MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Office of the Legislative Auditor
State Capitol
Helena, Montana 59501

Dear Mr. Brusett:

Attached is the response of Northern Montana College to the report of the recently completed audit of the college.

Lorraine joins me in expressing appreciation to the members of your staff for the manner in which the audit was conducted. Ellen Feaver, Charles Avery, and Wayne Kedish acted at all times with complete professionalism and caused as little inconvenience as possible to members of our staff. I am sure the college will benefit from the results of their efforts.

As you know, June 30 is the final day of my employment. As a result, I plan to spend the previous weekend in moving to Missoula. I would therefore greatly appreciate your scheduling our appearance before the committee at some time later than 8:00 a.m. in order that I can drive from Missoula on Monday morning.

Sincerely,

J. R. Crowley

J. R. CROWLEY
President

Enc.

NORTHERN MONTANA COLLEGE

RESPONSE TO AUDIT REPORT

For Year Ending June 30, 1974

AUDIT RECOMMENDATION (page 6)

That representatives of the university system work with the Department of Administration to develop an accounting system to satisfy legislative and university requirements.

RESPONSE

Northern Montana College is willing to work with others to develop and revise the accounting system. It is our understanding that the Office of The Commissioner of Higher Education is actively pursuing possibilities of developing an accounting system to satisfy legislative and university requirements.

AUDIT RECOMMENDATION (page 7)

That the college:

1. Deposit all moneys in the state treasury.
2. Utilize the investment services of the Board of Investments.

RESPONSE

The college will deposit all moneys in the state treasury as it is determined they should be deposited (as the proposed university accounting system facilitates such deposits).

The college is willing to utilize the investment services of the Board of Investments and has shown its willingness by converting certain investments as they matured to those managed by the Board

of Investments. However, there are circumstances when certain donors request investment in certain issues. Two of our current investments are of this type. (Booster Club funds of $8,825 are invested in Citizens Bank Time Savings Certificates. The AAUW organization asked that its $1,600 contribution (interest for scholarship) be invested in a certificate with a maturity of four years.) Attempts will be made to convince donors that the Board of Investments should be used.

The remaining investments with returns ranging from 4¼% on a $2,000 certificate to 8% on a U. S. Note have been held for periods of time predating existence of the Board of Investments and if redeemed prior to maturities would result in losses.

Of the $83,700 invested on June 30, 1974, $31,825 is currently held outside of the Board of Investments.

AUDIT RECOMMENDATION (page 8)

That the college allocate administrative costs to all auxiliary enterprises and other programs on an equitable basis.

RESPONSE

The college will determine immediately an equitable basis for allocating administrative costs to auxiliary enterprises and other programs.

AUDIT RECOMMENDATION (page 9)

That the college close the cash receipt books at fiscal year end.

RESPONSE

We concur in this recommendation.

AUDIT RECOMMENDATION (page 10)

That the college evaluate the balances remaining in dormant general ledger accounts and close those accounts that are no longer useful.

RESPONSE

A few of the balances remaining in dormant general ledger accounts have been closed and those remaining that are no longer useful will be terminated.

AUDIT RECOMMENDATION (page 10)

That the college review the records in its custody and dispose of those records which are unneeded.

RESPONSE

As staff becomes available, the records will be reviewed and disposed of.

AUDIT RECOMMENDATION (page 11)

That the college use journal vouchers to record internal transactions.

RESPONSE

The use of subsidiary journal vouchers which will be incorporated monthly into the accounting system has been initiated.

AUDIT RECOMMENDATION (page 12)

That the college allocate work study expenditures to the benefited departments.

RESPONSE

Allocation of the federally funded work study expenditures to the benefited departments would result in a complex accounting for co-mingled funds and the resulting financial statements would lose meanings insofar as identity of expenses from state appropriated sources. Our records do indicate the portion paid work-study

participants from appropriated and other college funds (by identified object cost account numbers). The information could be footnoted. Note that work-study students work not only for state appropriated programs but also work for auxiliary enterprises, student activities (such as student union board), and others. Also, some of the federal funds expended are used as matching for other public agencies so that the salaries, as such, do not appear in any college cost accounts.

<u>AUDIT RECOMMENDATION (page 13)</u>

That the college accrue all year-end expenditures which are legal liabilities, and report purchase orders by note disclosure in the financial statements.

<u>RESPONSE</u>

We do not feel that it is possible unless there is a change in the accounting system to handle accruals for state funds in any other manner than it has been done since the SBAS system was established. If purchase orders were incorporated in the system as expenditures in the year paid, there would be a system of accounting for payments arising out of appropriations for different years. Currently, to retain the funds for payment of expenditures all potential liabilities must be accrued.

The report mentions $83,533 accrued for fiscal year 1972-73. Actual expenditures against the accruals were made in 1973-74 of $80,256. An additional $558 was established for accruals that had been missed. The net difference was an overstatement of expenditures of $2,719 for 1972-73. The reduction in accruals

resulted from items such as discounts taken, overestimates of services, and cancellations of items on purchase orders. However, the savings were returned in this particular year to the general fund ($1,213), millage fund ($1,008), and earmarked revenue fund ($491). If the purchase orders had not been included, expenditures would have been understated on legislative reports. Any 1974 accruals cancelled after July 1, 1974, are returned to the general fund. We do attempt to keep outstanding purchase orders to a minimum and begin attempts well in advance of the close of the year to obtain billings so they will not be carried forward as accruals.

Local expenditures can be accrued fully but more accounting help will be necessary.

AUDIT RECOMMENDATION (page 15)

That the college revise its accounting practices in accordance with generally accepted accounting principles by recording current fund account activity and balances in the proper fund.

RESPONSE

We will record auxiliary enterprises as directed but we do not agree that the housing and dining system is unrestricted. All earnings are pledged for repayment of debt resulting from constructing the facilities and so earnings are restricted for that purpose.

AUDIT RECOMMENDATION (page 16)

That the college revise its financial reporting practices in accordance with generally accepted guidelines for colleges and universities.

RESPONSE

Items currently omitted from statements as outlined here will be

incorporated into the annual financial statements.

AUDIT RECOMMENDATION (page 19)

That:

1. Payroll creation, recording, and distribution duties be placed with separate employees.

2. The business office control all cash disbursement checks and cash receipts for student aid.

3. Other employees' duties be segregated in a manner which will provide adequate internal control.

RESPONSE

We concur in the recommendations and will comply with them.

AUDIT RECOMMENDATION (page 19)

That the college require payments be made at the business office.

RESPONSE

We are initiating or have initiated methods to comply with the recommendations pertaining to centralized receipt of cash.

AUDIT RECOMMENDATION (page 20)

That the college require all cash receipts be deposited intact.

RESPONSE

We will concur in the recommendation. The change fund held in the business office has been increased to lessen the need for constant and almost daily additional change for average daily transactions. The use of checks for change has been initiated.

AUDIT RECOMMENDATION (page 21)

That the college:

1. Change the safe combination.

2. Require that each safekeeping facility be properly secured.

RESPONSE

1. The safe combination has been changed.

2. Personnel have been instructed to retain personal control of keys issued to them.

AUDIT RECOMMENDATION (page 21)

That the college:

1. Void checks which have errors and prohibit the issuance of altered checks.

2. Check all invoices when approved to prevent re-use.

RESPONSE

These recommendations have been complied with.

AUDIT RECOMMENDATION (page 22)

That the college establish procedures to ensure that college deposits in local bank accounts are properly collateralized as required by Section 79-301, R.C.M. 1947.

RESPONSE

Communications will be established with the State Treasury to insure that information regarding collaterization is timely.

AUDIT RECOMMENDATION (page 24)

That the College work with the Central Payroll Division of the State Auditor's Office to develop modifications of the central payroll system to meet the college's needs.

RESPONSE

Actually it was in May 1972 that we were informed that the Centralized Payroll representatives would be working with us by December 1972 on centralized payroll. We will be glad to cooperate with the Central Payroll Division of the State Auditor's Office.

AUDIT RECOMMENDATIONS (page 25)

That the college:

1. Establish payroll files for each college employee.
2. Require an application for employment for each new employee.
3. Document authorization for employment status changes.

RESPONSE

1. Attempts are being made to initiate standard forms and appropriate files for each college employee. The difficulty in complying with the recommendations lies in the shortage of employees to initiate and maintain the recommended procedures.
2. The standard state application form has been required for each employee.
3. Standard authorizations for employee status changes will be initiated.

AUDIT RECOMMENDATION (Page 26)

1. That the Board of Regents establish a policy relating to leave earned by administrative personnel.
2. That the college maintain leave records for all employees.

RESPONSE

1. We will concur in the recommendation.
2. Additional efforts will be made to maintain leave records for all employees.

AUDIT RECOMMENDATION (page 27)

That the college develop follow-up procedures to determine the current status of all student aid resources.

RESPONSE

Procedures have been initiated to assure that student files reflect whether or not authorized payments for scholarships

and loans have been made or in cases where such payments have not been made the reason will be noted in the student's file. In certain cases payments cannot be made to alternate students because of certain instructions by the donor.

AUDIT RECOMMENDATION (page 29)

That the college determine the proper use of administrative charges for deferred fees.

RESPONSE

The proper use of these fees will be determined.

AUDIT RECOMMENDATION (page 29)

That the college recognize all receivables and the related income in its financial statements.

RESPONSE

We will comply with the recommendation.

AUDIT RECOMMENDATION (page 30)

That the college report in its financial statements accounts receivable in accordance with generally accepted accounting principles.

RESPONSE

We will comply with the recommendation. However, the federal grants have been recorded in the accounting records not primarily to aid in preparing required federal reports but to control the specialized funding resulting from grants, which must be administered according to accounting methods outlined by federal directives.

AUDIT RECOMMENDATION (page 31)

That the college establish an allowance for doubtful accounts and recognize the bad debt expense related to uncollectible receivables.

RESPONSE

We will comply with this directive.

AUDIT RECOMMENDATION (page 31)

That the college secure student loan notes and grant access only to employees of the financial aids office.

RESPONSE

A new system will be set up to comply with this recommendation.

AUDIT RECOMMENDATION (page 33)

That the college:

1. Take a periodic physical inventory of fixed assets.

2. Provide for the placement of an identification tag on all equipment.

RESPONSE

We will comply with this recommendation as funds and personnel become available.

AUDIT RECOMMENDATION (page 33)

That the college disclose the acquisition of assets through lease-purchase arrangements in its accounting records and financial statements.

RESPONSE

We will comply with this recommendation if we should have future purchases of this type.

AUDIT RECOMMENDATION (page 34)

That assets under construction be recorded in a "construction in progress" account with an offsetting entry to "investment in plant."

RESPONSE

The balance of $945,000 in "reserve for investment in fixed assets" is the total of all expendituresof state appropriated funds administered by the Division of Architecture and Engineering since 1970. This account was established to retain identity of such expenditures. When the women's dormitory and food service were completed, the total of such expenditures were transferred to "investment in plant",

as federal loan funds had been used for such construction.

This account can be eliminated in the manner recommended in the report.

AUDIT RECOMMENDATION (page 35)

That the college establish a procedure for making correcting entries in a manner that will allow tracing the corrections.

RESPONSE

The college is complying with the recommendation.